Increasing Complications for Income Tax payments

What is the issue?

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- IT department has sought more information regarding tax-payers as per its 2018-19 directives than previously sought.
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- This rising disclosure requirements subject taxpayers to unnecessary burden and enhance compliance costs.
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What is the new demand?

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- While start-up investors are already worried over ‘angel tax’ on equity infusions, Central Board of Direct Taxes (CBDT) has presented another googly.
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- Billions of dollars in angel funding have flowed into Indian start-ups lately.
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- As each venture receives successive rounds of funding, incumbent investors get to pocket substantial capital gains on exit.
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- This information is often hidden from the public domain, and is now being demanded by the IT department.
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- Individual investors will now have to disclose the excesses that are received from the sale of unquoted shares over and above their ‘fair market value’.
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- Such a disclose will allow the taxman to not just levy tax on the specific investor, but also to cross-verify valuation claims across investors in a venture.
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- This would hence ensure a consistent basis of valuation over time.
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What is the major issue with this?

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- Fair Market Value even for listed entities is very subjective, and yield depends on the method of calculation, market conditions and investor sentiments.
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- In the absence of profits or tangible assets, the valuation of new-age start-ups is an even more qualitative exercise.
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- Hence, the disclosure requirements would open up a Pandora's Box of discretionary assessments and disputed claims between taxmen and investors.
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- If the Centre is keen to provide impetus to start-up funding, it should ideally refrain from prescribing valuation methods and leave it to the markets.
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What are the other issues?

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- In addition to this, high-income salaried people have been mandated to provide their salary breakup and give details on property, and investments.
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- Contrary to the stated purpose of moving to simpler tax filings, the CBDT has demanded more and more intrusive details from taxpayers.
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- While the IT department already collects a lot of data at source (from banks, TDS facilitators etc…), it is surprising that those aren't being put to use.
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- Subjecting the entire taxpaying population to a rising compliance burden to crack down on a few bad apples is anything but a friendly tax regime.
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Source: Business Line

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